

PHILIPPINES ECONOMIC WRAP-UP

JUNE 24-30, 2000

----- **Summary** -----

The Bangko Sentral ng Pilipinas adjusts its overnight borrowing rates again in an effort to sour lending to the private sector. April manufacturing numbers suggest "cautious optimism." The failed PNB privatization continues to confound the government and PNB owners. The first fraud case has been filed against executives involved in the failure of Urban Bank, with promises of more to follow. We also report on Philippines trade statistics for April and a unique power plant opening.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

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----- **Market and Policy Developments** -----

FOREX REPORT -----

Speculative plays against the peso in anticipation of a U.S. Federal Reserve interest rate hike (and even following the lack of such action) dragged the peso down this week to below P43/US\$. Concerns about inflation and further domestic oil price hikes contributed further to the decline. From a June 23 close of P42.845/US\$, the peso weakened each trading day this week to end at P43.230/US\$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
MAY 22	41.801	41.915	157.7
23	42.158	42.370	161.5
24	42.749	42.740	119.3
25	43.159	43.400	206.7
26	42.976	42.720	170.7
MAY 29	42.649	42.710	163.7
30	42.829	42.750	92.4
31	42.649	42.620	146.5
JUN 01	42.633	42.580	104.5
02	42.465	42.465	113.1
JUN 05	42.421	42.320	147.7
06	42.233	42.380	199.2
07	42.417	42.360	131.3
08	42.475	42.480	101.0
09	42.521	42.465	99.7
JUN 12	Markets Closed		
13	42.400	42.425	105.0
14	42.415	42.420	116.5
15	42.465	42.535	63.5
16	42.611	42.595	102.0
JUN 19	42.649	42.655	93.5
20	42.672	42.675	142.6
21	42.693	42.830	86.0
22	42.907	42.870	128.0
23	42.879	42.845	76.0

JUN 26	42.890	42.910	73.0
27	42.963	43.020	63.0
28	43.115	43.130	97.1
29	43.154	43.170	114.6
30	43.253	43.230	108.6

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Interest rates continued to drop in this week's Treasury auctions and the Bureau of Treasury made full awards. Yields on the 91-day T-bills fell 1.5 basis points to 8.896%. Yields on the 182-day T-bills declined 19.6 basis points to 9.849% and yields on the 364-day T-bills declined a full 23.9 basis points to 10.685%. The June 27 auction of two-year Treasury bonds saw rates decline 12.5 basis points (from a month earlier) to 11.875%. A total of P3.88 billion in bids were submitted and all P3.0 billion of the bonds were sold.

To encourage cash-rich banks to lend, the Bangko Sentral ng Pilipinas (BSP, the central bank) on Monday, June 26, announced a new three-tier interest rate scheme for overnight deposits with the central bank. The BSP's new borrowing rate for placements of up to P5 billion remains 10%. For the next P5 billion a bank deposits at the BSP, the funds earn only 8.5%. Any additional deposits (that is, over P10 billion) only earn P7%. BSP Governor Raphael Buenaventura said the new scheme will hopefully encourage lending to the private sector. Overnight lending rates remain at 12.25%.

----- Domestic Interest Rates (in percent) -----

Treasury Bills

Auction Date	91 days	182 days	364 days
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MAY 22	8.975	10.375	11.423
MAY 29	8.968	(no sales)	11.396

JUN 05	8.908	10.282	11.211
JUN 13	8.909	10.137	10.944
JUN 19	8.911	10.045	10.924
JUN 26	8.896	9.849	10.685

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
MAY 25	11.1516	10.00 - 13.750
JUN 01	11.1416	10.25 - 13.625
JUN 08	11.1228	10.00 - 13.625
JUN 14	11.1229	10.00 - 13.625
JUN 22	11.1379	10.00 - 13.625
JUN 28	11.1806	9.50 - 13.625

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Trading activity on the Philippine Stock Exchange was moribund this week, never rising above P1 billion on any day. The market traded in a 19 point band as traders look for direction in earnings. The 33-share Philippine stock index ended the week at 1533.99; the June 23 close was 1542.97.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
MAY 22	1412.09	935
23	1404.67	1143
24	1418.79	1266
25	1426.62	1267
26	1427.26	2540
MAY 29	1482.77	1107

30	1470.07	746
31	1478.76	623
JUN 01	1470.53	902
02	1512.75	1135
JUN 05	1552.65	1136
06	1562.38	1222
07	1522.33	796
08	1537.13	598
09	1521.93	977
JUN 12	Markets Closed	
13	1522.15	950
14	1524.21	1468
15	1565.69	1200
16	1569.95	1225
JUN 19	1560.67	1001
20	1560.40	1121
21	1555.62	816
22	1545.90	1156
23	1542.97	966
JUN 26	1532.24	628
27	1529.37	925
28	1531.01	873
29	1532.74	767
30	1533.99	938

Source: Philippine Stock Exchange

APRIL 2000 MANUFACTURING OUTPUT

The National Statistics Office's (NSO) latest Monthly Integrated Survey of Selected Industries (MISSI) showed April 2000 overall manufacturing output up 10.8% from the previous year. Sales volume expanded year-on-year for the eighth consecutive month. Manufacturing output, however, took a breather from four successive months of positive year-on-year growth and contracted 4%. NSO officials observed that the production trend since mid-1999 appeared to be moving in a pattern of three months growth and one-month decline. The cycle suggests a cautious optimism, with manufacturing establishments

apparently still wary about aggressively building-up inventories.

MONTHLY INTEGRATED SURVEY OF SELECTED INDUSTRIES

	Year-on-Year Change (%)	
	Production Volume	Net Sales Volume
	-----	-----
January 1999	-12.4	-19.0
February	-8.4	-13.8
March	-1.6	-4.9
April	3.5 r/	1.4
May	3.7 r/	-4.4
June	-1.2 r/	-3.0
July	-1.7 r/	-5.8
August	15.2 r/	-4.8
September	5.4 r/	11.9
October	10.6 r/	13.5
November	-4.9 r/	8.9
December	20.4 r/	12.1
January 2000	12.6 r/	20.0
February	6.6 r/	6.3
March	3.2 r/	8.2
April	-4.0 p/	10.8 p/

r/ revised to reflect late survey responses
p/ preliminary (based on 65.9% response rate)

Source: National Statistics Office

PNB PRIVATIZATION IN LIMBO

Led by controlling owner Lucio Tan, the board of Philippine National Bank (PNB) decided recently to reduce the bank's par value from P100 to P60 per share in preparation for a planned capital call later this year. The P60 per share par value reportedly reflects the results of the latest audit on PNB conducted by auditing and consultancy firm Sycip, Gorres and Velayo (SGV). This development threw into limbo the government's decision last week to rebid its minority 30% stake in PNB by July. Although it had yet to set a floor price, the

government had hoped to sell its shares at no lower than the original par value. Analysts also now estimate that the reduced par value could dilute the government's holdings to 10% (from the previous 15% estimate) when PNB implements its planned stock rights offering -- making the government's shares even less attractive to prospective buyers.

According to officials involved in PNB's privatization, the Hong Kong-based Templeton Group (which owns 12.9% of PNB) has proposed an "alliance" with the government and other minority shareholders to block the board's proposed par value reduction when presented for stockholders' approval. The government is seriously mulling this option in order to preserve the value of its shares. However, Finance Secretary Jose Pardo announced in various fora that the government would not stand in the way of PNB's planned stock rights offering because the bank badly needs fresh capital to return to a more solid financial footing. Foreign donors are pushing for a capital infusion into PNB by September as a condition to releasing committed funding.

FIRST CASE VERSUS URBAN BANK EXECS

The Philippine Deposit Insurance Corporation (PDIC) and the Bangko Sentral recently lodged with the Department of Justice the first case against the president and other top officials of closed Urban Bank. The bank regulators accused the executives of estafa and falsification of documents in relation to a P5 million manager's check. The check, which was endorsed and cashed by Urban Bank and president Teodoro Borlongon, was supposed to have been payable to certain depositors who had allegedly pre-terminated their time deposit shortly before the bank's closure last April. The depositors have denied ordering a pre-termination of their deposits and receiving the supposed proceeds.

Bank regulatory authorities are building up additional cases for other possible violations -- including higher-than-allowed exposures to directors, officers and related parties; violations to BSP-imposed single borrowers' limits; and other unsafe and unsound banking practices. The Embassy has heard from one of the senior regulators

involved in the matter that the key to these investigations is the broad interagency cooperation between the Department of Justice, the Department of Finance, the Bangko Sentral ng Pilipinas, and the Securities and Exchange Commission, all of whom have some jurisdiction. Judging from historical performance, observers have noted that the more important test is not how quickly the cases are filed, but whether the cases will prosper through the Philippines' convoluted and often capricious legal system.

TRADE SLOWED IN APRIL, BUT SURPLUS REMAINS

The Philippines' merchandise trade surplus for Jan-April 2000 stood at \$871 million, up 204% from a year ago level of \$286 million, the National Statistics Office reported. This resulted not from strong export performance (10.6%) but from sluggish import growth (5%) in the first four months of the year. Month-on-month, April exports declined 10.7% while April imports fell 7.8%, both from their March levels, largely due to weakening performance of the electronics sector. Accounting for 47% of aggregate April exports, shipments of electronics and components went down 4.2% to \$1.26 billion; imports (22.6% of total April bill) also fell 9% to \$572 million. The April slowdown should not be a cause for worry, according to the executive director of the Semiconductor and Electronics Industry of the Philippines, Inc. (SEIPI). The SEIPI official admits that the industry could no longer be expected to post spectacular growth as in previous years, but it has not lost its growth momentum. For this year, SEIPI projects the multi-billion dollar electronics industry could meet is 20% export growth target.

Among the country's top three trade partners (U.S., Japan and Singapore) the Philippines posted a strong trade surplus with the U.S. of \$1.3 billion. As the Philippines' largest market, for April the U.S. accounted for 25% (\$311.4M) of electronics exports, 74% (\$125.4M) of garments shipments, 28% (\$68.5M) of computer peripherals sales, and 48% (\$19.8M) of coconut oil exports. The country also logged a \$120 million surplus with Singapore. In contrast, imports from Japan exceeded exports by \$202 million, attributed mostly to automotive

parts and components. Private sector economists project that two-way trade will continue to slow, although surpluses would be maintained as exports continue to outpace imports.

PHILIPPINE FOREIGN TRADE PERFORMANCE

January - April 2000

(FOB value in Million US\$)

	Exports	Imports	Balance Of Trade
Jan 1999	2,581	2,400	181
Feb	2,569	2,257	312
Mar	2,702	2,656	46
Apr	2,346	2,599	(253)
May	2,747	2,533	214
Jun	2,857	2,671	187
Jul	2,851	2,791	60
Aug	3,212	2,661	551
Sept	3,693	2,548	1,145
Oct	3,458	2,613	845
Nov	3,073	2,351	722
Dec	2,944	2,653	291
Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419
Mar	2,988	2,742	247
Apr	2,668	2,528	140
Jan-Apr 1999	10,198	9,912	286
Jan-Apr 2000	11,275	10,404	871

Source: National Statistics Office

NEW POWER PLANT OPENS

On Thursday, June 29, President Estrada presided over the formal opening of the Quezon Power Plant in Maubon, Quezon Province. The 440 MW coal fired plant, built at a total cost of nearly \$1 billion, is unique in Asia in that it is the first power plant built with no sovereign guarantees. Unlike most independent power producers (IPP's) in the Philippines, Quezon Power (Philippines) Limited sells its power directly to the private power

distributor MERALCO rather than the state owned National Power Corporation. The plant is built with the latest environmental technology; during the opening ceremonies plant officials stressed repeatedly that the plant was operating even though no smoke could be seen coming from the smokestack.